

Political Science 17.20

Introduction to American Politics

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The Politics of Economic Inequality

Lecture 24 (May 9, 2013)

- 1 Democracy and Economic Inequality
- 2 Economic Inequality in the United States
- 3 Explanations for Economic Inequality

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Democracy & Capitalism: Reinforcing?

Are democracy and capitalism **compatible**, even mutually reinforcing, or are they fundamentally in **conflict**?

■ **Compatible:**

- Intuitively, they are similar in that they are based on choice among competing alternatives:
 - elections as “markets” for policies
- Theoretically, some argue that government control over the economy inevitably threatens democracy:
 - e.g., Friedrich Hayek’s “The Road to Serfdom”
- Empirically, capitalism and democracy are tightly correlated.

Democracy & Capitalism: In Conflict?

- **Conflicting:**
 - Democracy is based on **political equality**, whereas capitalism requires distributing economic goods **unequally**, in accordance with their market value.
 - Capitalism requires **limiting the power of democratic majorities** (e.g., protection of property rights)
 - “automatic punishment” (Lindblom)
 - Economic inequality undermines political equality.
- Freedom vs. (in)equality

Electoral Demand for Redistribution

How should we expect democratic electorates to respond to economic inequality? Consider a **median voter model of redistribution** (Meltzer & Richard):

- N voters with pre-tax income y_i subject to flat (proportional) tax rate t , the proceeds from which are distributed evenly to all voters in the form of an income transfer $r = t \times \sum_i \frac{y_i}{N}$
- The post-tax, post-transfer **income of voter i** is thus:

$$\text{income}_i = y_i(1 - t) + r$$

- Assume that higher taxes discourage voters from working.
- Assume that suffrage is universal and that the tax rate t is the only thing that influences citizens' vote choices.

Implications of Median Voter Models of Redistribution

- The higher voters' income, the lower their preferred tax rate and demand for redistribution.
- Policy will reflect the preferences of the **median voter**, who will be the voter with the **median income**.
- In equilibrium, the tax rate will be redistributive but fall short of complete economic equality (because voters anticipate that taxation reduces incentives to work).
- As **economic inequality** grows, the ratio of the mean to the median income will increase and so will **median voter's demand for redistribution**.

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Increasing Economic Inequality in the U.S.

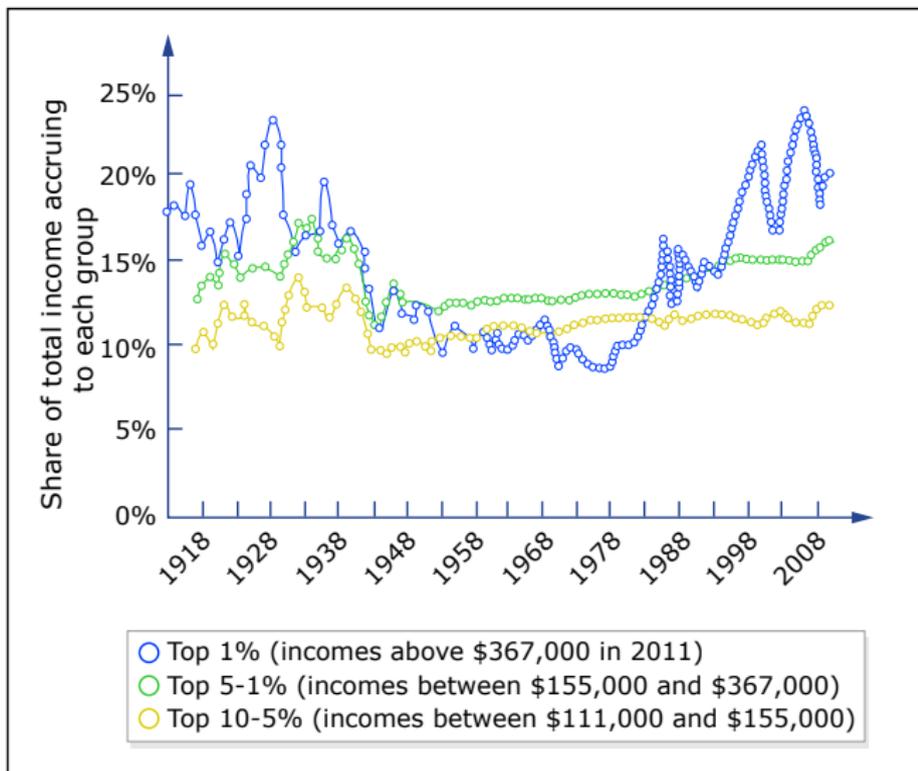


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The Role of Politics and Policy in Economic Inequality

Taxes:

- Flat or progressive?
- Income vs. investments vs. sales
- Deductions

Transfers:

- Social Security
- Food stamps

Services:

- Health care

Pre-Tax Income:

- Minimum wage
- Unions
- Corporate governance

The Puzzle of No Policy Response

Contrary to the predictions of the median voter model, economic policy has (at least until very recently) become **less redistributive as economic inequality has grown**. WHY?

Outline

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Explanations Derived from Median Voter Models

- Technological and other economic changes have driven economic inequality, so no political response needed.
- Immigration has added non-voting citizens at the bottom of the income distribution, so the median voter hasn't fallen in relative terms (probably not true.).

Unequal Representation

- Government officials are less (or not at all) responsive to the policy preferences of lower-income citizens.
 - **Bartels**: No correlation between senators' voting patterns and the opinions of their low-income constituents.
 - **Gilens**: Policy changes favored by low-income citizens almost never occur if not favored by upper-income citizens.
- Critiques:
 - Different income groups tend to vary little and to move in parallel, so responsiveness to upper-income indirectly represents lower-income citizens.

The Problem of Preferences

- Lower-income citizens tend to have less informed, less coherent preferences → measurement error.
- In addition, Bartels's other work suggests that their preferences do not rationally reflect their true interests.
- Possibility of changing values or tolerance for inequality?

Organized Interests

Hacker & Pierson: In addition to ignoring the concentration of income growth at the top and advancing a simplistic view of policy, scholars focused on public opinion and electoral behavior ignore the fact that policy outcomes are often determined by **organized groups**.

- Mobilization of business interests since the 1970s.
- Collapse of labor unions in the U.S. → double blow (political and economic).

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